

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00
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NSC-05 SS-15 STR-07 CEA-01 PA-01 DOE-11 SOE-02
/123 W

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R 071520Z MAR 78
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC 6975
INFO AMEMBASSY BONN
AMEMBASSY MOSCOW
AMEMBASSY TOKYO

C O N F I D E N T I A L LAGOS 2888

E.O. 11652: GDS
TAGS: BEXP, ECON, NI
SUBJECT: NIGERIAN RESPONSE TO BUDGET CRUNCH

REF: LAGOS 1912

1. TWO MONTHS AFTER THE IMPOSITION OF AN EMBARGO ON NEW FMG CONTRACTS, THE HARD HOLD-THE-LINE STANCE SEEMS TO BE WAVERING. MINISTRY OF ECONOMIC DEVELOPMENT (MED) OFFICIALS HAVE QUIETLY ADVISED EMBEISY THAT PERMISSION HAS BEEN GRANTED FOR A LIMITED NUMBER OF ROAD, TELECOMMUNICATIONS AND OTHER CONTRACTS WHICH ARE MEDED QTE NEEDED UNQTE. SOME CONTRACTS HAVE ALREADY BEEN SIGNED. THIS MOVE TOWARD RELAXATION COMES DESPITE THE OVERALL FRUSTRATION ENCOUNTERED BY THREE PERMSECS ON THEIR RECENT TRIP TO ROME, MOSCOW AND TOKYO TO ARRANGE REFINANCING. ALTHOUGH THE LATTER OFFICIALS' EFFORTS GOT VIRTUALLY NOWHERE,

THE NEAR PANIC OVER SHRUNKEN PETROLEUM INCOMES AND BADLY COORDINATED SPENDING HAS ABATED. THE FMG FEELS MORE CONFIDENT ABOUT ALLOWING CERTAIN PROJECTS TO MOVE AHEAD NOW THAT IT HAS
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A BETTER GRIP ON ITS OWN FISCAL PROCESS.

2. CONFIDENTIAL REPORTS OF THE EARLY FEBRUARY TRIP TO THREE CAPITALS SHOW THAT THE WEST GERMANS FLATLY REFUSED TO CHANGE CONTRACT TERMS. THEY POINTED OUT THAT A CONTRACT IS AN IN-VIOLATE AGREEMENT OF TRUST WHICH CANNOT BE ALTERED. SOVIET OFFICIALS, IN TURN, SAID THAT SOME ADJUSTMENTS COULD BE MADE,

IN CREDITS FOR THE AJAOKUTA STEEL MILL. THE NIGERIANS, HOWEVER, WERE FAR FROM IMPRESSED BY THIS, AGREEING AMONG THEMSELVES THAT SOVIET PRICES WERE ACTUALLY FOUR OR FIVE TIMES HIGHER FOR EQUIPMENT OF COMPARABLE VALUE FROM WEST GERMANY. JAPANESE OFFICIALS GAVE ANOTHER FLAT QTE NO UNQTE, EXCUSING THEMSELVES ON THE GROUNDS THAT THEY QTE FEARED THE WRATH OF THE UNITED STATES UNQTE. ACCORDING TO THE JAPANESE, THE AMERICANS INSISTED THAT JAPAN HAD TO CUT ITS LARGE TRADE SURPLUS. IF JAPAN WERE TO GIVE SOFTER TERMS TO NIGERIA, THIS WOULD MAKE JAPAN MORE COMPETITIVE, RAISE ITS TRADE SURPLUS EVEN MORE, AND PROVOKE THE ANGER OF THE INDUSTRIALIZED WEST.

3. COMMENT. EMBASSY DISCUSSIONS WITH MED FURTHER CONFIRM AN FMG INTENTION TO CUT BACK ITS OWN INVOLVEMENT IN DIRECTLY FUNDED ECONOMIC GROWTH AND LOOK INCREASINGLY TO THE PRIVATE SECTOR TO MAKE UP THE BALANCE. WE HAVE LEARNED THAT THE NEED FOR MORE AUSTERITY IS HELPING THE REPRESS THOSE CONSIDERED BY THEIR COLLEAGUES TO BE QTE RADICAL UNQTE IN GOVERNMENT SPENDING, SPONSORSHIP, AND OWNERSHIP OF PROJECTS. THE INITIATIVE, HOWEVER, IS NOW BEING WRESTED FROM THEM ON THE OBVIOUS GROUNDS THAT BOUNTIFUL AMOUNTS OF FEDERAL MONEY ARE NOT AS BOUNTIFUL AS ONCE THOUGHT. THE PRIVATE SECTOR MUST PICK UP THE BALL AND THE FMG INCREASINGLY REALIZES THAT PRIVATE SOURCES OF FUNDING MUST BE ENCOURAGED. MED OFFICIALS CONFIDE THAT A

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CONFIDENTIAL STUDY HAS BEEN COMMISSIONED TO ASCERTAIN HOW THIS CAN BE DONE. THEY FURTHER ADMIT THAT ONE OF THE MORE EFFECTIVE APPROACHES IS THE FACILITATION OF PRIVATE INVESTMENT FROM ABROAD. BUT THIS IS RUNNING AGAINST NATIONALIST SENSITIVITIES AND MUST BE HANDLED VERY GINGERLY.

4. WE FIND THE TREND LINE SINCE THE EARLY DECEMBER CRACKDOWN ON SPENDING IS POINTING IN THE RIGHT DIRECTION, IN THE LONG RUN, HELPFUL TO BASIC NIGERIAN ECONOMIC HEALTH AND TO U.S.

INTERESTS. THE FMG IS TRYING TO PUT ITS BUDGETARY HOUSE IN ORDER AND AT THE SAME TIME IS TAKING A HARDER LOOK AT PRIORITIES. INSTEAD OF A RIGID FREEZE ON ALL NEW PROJECTS, PERMISSION TO GO FORWARD AFTER SOME SCRUTINY HAS BEEN GIVEN. THE ECONOMY IN NO WAY IS GOING TO COME TO A STANDSTILL. THE MONEY SQUEEZE IS SHARP ENOUGH TO STIMULATE CONSTRUCTIVE THOUGHT AND SOFT ENOUGH NOT TO CRIPPLE THE DEVELOPMENT PROCESS. THE RESULTANT GOVERNMENT POLICY IS WORKING AGAINST THOSE FAVORING STATE DOMINATION IN THE ECONOMY AND FOR THE FIRST TIME IN RECENT YEARS WE OBSERVE GENUINE THOUGH STILL TACIT OFFICIAL SUPPORT OF PRIVATE SECTOR DEVELOPMENT AS AN IMPORTANT MEANS TO KEEP UP MOMENTUM. ENLARGEMENT OF INVESTMENT FROM ABROAD MAY WELL GO BEYOND

LIP SERVICE; HARD ANALYSIS BY FMG ECONOMIC PLANNERS COULD
PRODUCE REGULATIONS WHICH WOULD FACILITATE THE INFLOW. UP
TO NOW WE HAVE HAD PRO-FOREIGN INVESTMENT SLOGANS WHICH WERE
CONTRADICTED BY DISINCENTIVES. WITH THE MILITARY REGIME
AWARE OF ITS BEING CAUGHT IN THE DILEMMA OF SMALLER REVENUES
AND STILL UNFULFILLED DEVELOPMENT PROMISES, THE HIERARCHY
IS INCREASINGLY PRESSED TO SHED SOME XENOPHOBIA FOR POSITIVE
CORRECTIVE ACTION. THE RUDE AWAKENING IN THE PAST FEW MONTHS
TO HARD ECONOMIC REALITIES IS PROVING TO BE A HEALTHY THING.
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